

## **Paying for technologies in the outpatient PPS**

**ISSUE:** Should Medicare change the method used to pay for technologies in hospital outpatient departments (HOPDs)? Services provided in HOPDs are paid under the outpatient PPS. The PPS determines payments for most services as pre-determined base payment rates adjusted for regional differences in input prices. The PPS makes additional pass-through payments for some drugs, biologicals, and devices (technologies) because the data CMS used to calibrate base rates did not adequately reflect their costs. The pass-through system has favorable qualities such as facilitating incorporation of new technologies into outpatient procedures. But, it also introduces incentives to increase prices, distorts relative payment rates, and imposes administrative burdens on hospitals and CMS. Consequently, we have considered alternative systems for paying for technology provided in HOPDs. Each alternative is discussed and a draft recommendation is provided for each. A brief summary of the November 30<sup>th</sup> outpatient PPS final rule is also attached.

**KEY POINTS:** Alternatives for modifying the treatment of technology used in HOPDs include:

1. Continued use of the pass-through system, with the following modifications:

- Replace cost-based payments with payments that reflect acquisition costs.
- Make sure pass-through payments reflect only the incremental cost to hospitals of pass-through items.
- Limit pass-through payments to new and substantially improved technologies.

Some of the problems in the current system would persist, but this would be an improvement.

2. Remove all technologies from the PPS and pay for them on a fee schedule. This could reduce distortions in relative payments and the incentive inherent in cost-based payments for providers and manufacturers to increase prices. Unbundling of technologies could cause inefficient use and would impose a large burden on hospitals and CMS because they would have to process additional information and CMS would have to establish and maintain payment rates.

3. Phase out pass-through payments and pay for all technologies under the outpatient PPS. A phase out would eliminate all the problems of the pass-through system. However, base rates may underpay for high-cost new technologies, giving hospitals an incentive to avoid those items. To minimize this incentive, CMS should quickly develop payment categories for the services that use new technology and obtain high quality cost data so payments accurately reflect new technology costs.

**ACTION:** This analysis of paying for technology in HOPDs will be a chapter in the March 2002 report. Staff need Commissioners to determine which option and recommendation is best. We also seek feedback on content and tone of our analysis of the best option.

**STAFF CONTACT:** Dan Zabinski (202-653-2647); Chantal Worzala (202-653-7232).